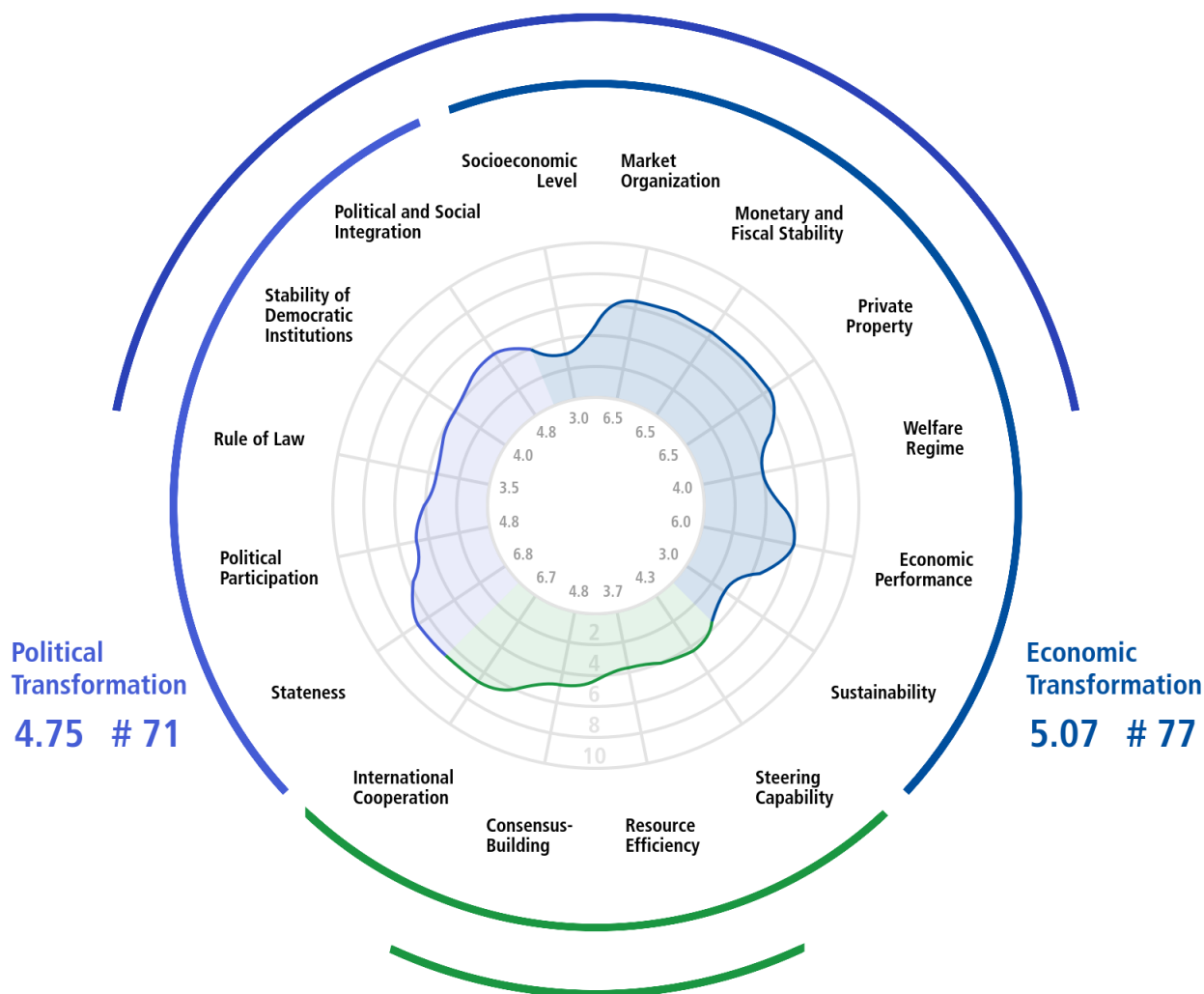


Honduras

Status Index

4.91 # 78

on 1-10 scale out of 137



Political Transformation
4.75 # 71

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5.07 # 77

Governance Index

4.47 # 79

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	10.4	HDI	0.621	GDP p.c., PPP \$	6741
Pop. growth ¹	% p.a.	1.5	HDI rank of 189	137	Gini Index	48.2
Life expectancy	years	70.1	UN Education Index	0.518	Poverty ³	% 26.4
Urban population	%	59.6	Gender inequality ²	0.431	Aid per capita \$	60.0

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

While 2021 and 2022 posed significant challenges for Honduras, there are some tentative positive developments that suggest a brighter future for the country. However, it's important to note that progress remains fragile and could easily be reversed.

In terms of political transformation, the 2021 general election marked substantial progress and a shift toward renewed democracy. The presidential elections, although not without flaws, were viewed as credible and fair, and the decisive victory of the opposition candidate was accepted by the losing candidate and his party. This represented the first peaceful transfer of power since the military coup in 2009.

Xiomara Castro, elected president, ran on a platform of change and anti-corruption. Her tenure has seen notable achievements, including the extradition of her predecessor, Juan Orlando Hernández, to the United States on drug trafficking charges and the repeal of the Secrets Law, which allowed officials to conceal corrupt activities. However, she also passed an amnesty law shortly after taking office that could shield powerful figures in her party from prosecutions for corruption, raising questions about her commitment to combating it. Like her predecessors, Castro has struggled to address widespread violence within democratic norms, resorting to suspending certain rights to combat extortion affecting small businesses, which she declared a national emergency. The declaration of a state of exception at the end of 2022, which remains in effect, acknowledged an ongoing failure by the state. Despite concerns, such measures enjoy broad public support.

In the economic sphere, although the country rebounded from the effects of the COVID-19 pandemic, Honduras continues to be one of the poorest and most unequal countries in the Western Hemisphere. It has also become increasingly clear that it is on the frontline of climate change, yet ill-prepared for climate change's consequences. Consequently, the new government faces the challenging task of balancing competing demands for environmental action and economic growth that would benefit the predominantly impoverished population. Castro has faced criticism from

environmental groups for prioritizing economic interests over environmental concerns. Additionally, she has been criticized for not doing enough to strengthen the rights of women, particularly in relation to reproductive rights, and the rights of Indigenous populations and other minorities.

Considering the political instability in various parts of the Americas, including the United States, it is uncertain whether the achievements of the past two years will remain intact. As Castro approaches the midway point of her term at the end of 2023, there is still much work to be done, and the focus may shift toward preparations for the 2025 elections.

History and Characteristics of Transformation

Two interconnected aspects, economics and politics, have shaped Honduras's process of transformation and have evolved in complex ways over an extended period. Economically, Honduras remains one of the poorest and most unequal countries in the Western Hemisphere. However, there have been significant shifts in the macroeconomic policies pursued by successive governments. Since the end of the Cold War, the country's economic landscape has diversified, transitioning from an agriculture-based economy to one centered around manufacturing and the production of low-cost consumer goods, commonly known as maquilas. Concurrently, Honduras has increasingly engaged with the global economy and played an active role in promoting regional economic integration through the Central American Common Market and international trade agreements within the framework of the Central American Integration System (SICA).

Natural disasters, such as Hurricane Mitch in 1998, partly drove these economic changes. The substantial international aid required for reconstruction required regional and international cooperation. However, international assistance also came with demands for reform. Structural adjustment programs developed by the International Monetary Fund did not lead to more equitable economic development. In fact, socioeconomic inequalities deepened over time, often exacerbated by reforms in social service provisions and reductions in benefits, which nearly every government from President Rafael Leonardo Callejas (1991 – 1994) to President Hernández (2014 – 2022) implemented.

Politically, Honduras experienced a period of relative stability from 1982, when the first democratically elected president (Roberto Suazo Córdova) took office, until 2009, when elected President Manuel Zelaya was ousted in a military coup. The period between 2009 and 2021 witnessed a significant decline in the country's democratic quality, notably the erosion of reforms initiated in 1994 by President Carlos Roberto Reina and in 1998 by President Carlos Flores to limit the military's power. Since 2009, the military has expanded its role both economically and politically, while increasing involvement in domestic security. This process has garnered broad public support and media endorsement, often framed as addressing the severe public security

challenges the country has faced since the 1990s. Despite the military's assumption of domestic security responsibilities, the level of violence in the country has remained largely unchanged.

Since 2009, the violent suppression of opposition protests and civil society activities has increased. Journalists critical of the government routinely face threats, intimidation, arrests, injuries and even death. Honduras has become one of the most perilous countries globally for environmental activists and defenders of Indigenous and minority rights. Deliberate government policies have led to significant democratic backsliding since 2009. This was most overtly demonstrated during President Hernández's rule through the fraudulent 2017 presidential elections and the de facto termination of the Organization of American States (OAS) anti-corruption mission MACCIH (Misión de Apoyo contra la Corrupción y la Impunidad en Honduras) in 2020. The latter action effectively undermined the independence of the judiciary.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The monopoly on the use of force continues to be contested in the country by a variety of groups ranging from street gangs, such as the MS-13 and the 18th Street Gang, to more organized international drug trafficking groups. These groups are linked to state institutions at both the local and national levels. Criminal investigations expose them, particularly ones by the U.S. Department of Justice, which has indicted and convicted several high-profile Honduran political and economic actors of international drug trafficking, including former President Juan Orlando Hernández, who was extradited to the United States a few weeks after leaving office and is currently awaiting trial. While criminal investigations into high-profile, powerful state actors should be welcomed, the fact that most of these are undertaken by the U.S. Department of Justice, rather than the authorities in Honduras, underlines the state's weakness.

Street gangs pose a significant practical challenge to establishing a monopoly on the use of force. There has been some progress in reducing violence. The National University Violence Observatory recorded a murder rate of 41.7 for every 100,000 inhabitants in 2021. Yet, Honduras remains the deadliest country in Central America. The MS-13 and the 18th Street gangs have between 35,000 and 40,000 members, according to estimates by Insight Crime and the Association for a More Just Society (AJS), the Honduran Chapter of Transparency International.

The new president has promised to take a more holistic approach to addressing the root causes of the gangs' standing in the areas they control. However, alongside a newly created community police, she has continued to deploy military police. She also declared a state of emergency to deal with extortion and other crimes.

Violence does not equally impact all groups in society. Poor people are far more likely to be victims of violence, including violence committed by the state itself. According to Human Rights Watch, environmental activists and journalists critical of the government are especially targeted, making Honduras one of the most

Question
Score

Monopoly on the
use of force

6

'06 '24 10

6 5 6

1

dangerous countries in the world for members of these groups. Once again, this is an issue that the new president has promised to tackle. Yet, the lack of control the state has over some regions of the country means there may be a gap between rhetoric and practical achievements.

The nation-state is recognized by the majority of the population as legitimate. However, deep mistrust continues to exist between it and significant parts of the population. In many ways, the convincing victory of Xiomara Castro in the 2021 presidential elections – so convincing that it was impossible for the losing National Party to contest it in any meaningful way – showed that there was a desire for change on the part of the majority of the population.

However, it will be difficult to address many of the structural inequalities and problems that exist in Honduras, at least in the short term. For instance, Indigenous people and people of African descent, in particular, continue to be systematically disadvantaged and discriminated against in education, the labor market, and access to basic social and state services. This is also reflected in the under-representation of these groups in politics, though the last elections, apart from electing the country's first female president, also resulted in more women in Congress. Now, 27% of seats are held by women, according to the Institute for Democracy and Electoral Assistance.

The structure of the new government, at least on paper, suggests increased focus on issues that have, historically, impeded the development of state identity across the country as a whole, even though there are challenges to gender equality in politics. According to the Economic Commission for Latin America and the Caribbean (ECLAC), through its Gender Equality Observatory, in Honduras only 30% of staff in government ministerial cabinets are women.

Castro has a Ministry of Transparency and Fight Against Corruption and has promised a more transparent system for appointing judges, including to the Supreme Court. She has appointed a Minister for Human Rights, Natalie Roque, a long-standing activist in this area. She has also promised more consultation with local and Indigenous communities on questions of economic development.

Whether these measures will, in the short term, succeed in diminishing the mistrust between the state and population, and therefore consolidating state identity, is open to question, particularly because Castro's control over Congress is relatively fragile and considerable vested interests are against significant structural changes in the way politics and economics in the country works.

State identity

8



1

There is no state religion, and, according to the constitution (Article 77), the Honduran state is secular. The Catholic Church is the only legally recognized church. In recent years, however, evangelical churches have attracted a growing number of followers. According to the State Department's 2021 Report on International Religious Freedom, Evangelicals now represent the country's biggest religious denomination. These groups exert considerable social influence on the population, especially in the poorer communities of the country. In terms of public security, for instance, they continue to be critical mediators between gangs and the government and often represent the only viable means for gang members to leave criminal life and return to society through engagement with, and within, the church.

Evangelical churches exercise considerable influence over government policy when it comes to certain social questions. One particular flashpoint is women's rights. The new president had promised a less conservative policy, for instance, on access to contraception. During the review period, however, she did not make any changes, meaning that even access to emergency contraception was illegal until the ban was lifted in March 2023. Many civil society activists blame the influence of religious organizations for this lack of progress. There remains a clear divergence between the constitutional provision for Honduras being a secular state and the practical influence of religious organizations, which is considerable.

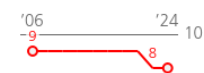
Honduras's public administration suffers from serious inefficiencies and corruption. The state is strongly "corporatist" and based on a network of personal relationships that reach from the highest to lowest echelons of the state. This sustains corruption and does nothing to improve efficiency. More than half of all Hondurans claim to have witnessed corruption in their interactions with public officials between 2019 and 2021. In the population's perception, access to basic public services is either not available or depends on committing acts of corruption. The new government has promised to increase transparency in the public sector, both in relation to appointments and showing how public money is spent. Yet it remains to be seen whether, and when, these promises will be fulfilled.

In terms of law enforcement and access to justice, Honduras's security and judicial institutions are centralized, and access to these institutions in rural areas is compromised by criminal structures and the private security industry. According to the World Bank, 95.7% of Hondurans have access to a basic water source, 83.8% can access basic sanitation and 93.2% have access to electricity. Women and other vulnerable communities are most affected by the lack of access to basic services, justice and security.

The country also suffers from patchy delivery of public services, including transport, access to adequate water and sewage systems, education and training. This became apparent during the pandemic when the provision of health services was uneven, while accountability was essentially suspended by the declared state of emergency.

No interference of religious dogmas

8



1

Basic administration

5



1

The state continues to have only a rudimentary presence in significant parts of the country, with the result that the provision of many essential public services cannot be guaranteed. This, in turn, fuels the mistrust that exists between the population and the state.

2 | Political Participation

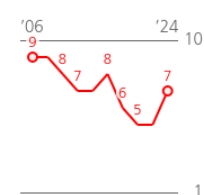
Xiomara Castro from the Liberty and Refoundation Party (LIBRE) emerged triumphant in the 2021 general election with about 51% of the vote, becoming Honduras' first female president. Voter turnout, at around 68%, was significantly higher than in 2017, according to the Honduran Election Authority. The election resulted in a peaceful transfer of power and marks significant progress in restoring a functioning democracy, though much work remains to be done.

The losing candidate, a member of the Honduran National Party (PNH), which is former President Hernández's party, made no serious attempt to challenge the election results, despite deep polarization in the country. Power was transferred peacefully for the first time since the 2009 coup. In the previous post-coup elections, in 2013 and 2017, there was strong evidence pointing to serious irregularities. In contrast, international observers, including from the European Union and the United States, confirmed the essentially fair nature of the 2021 elections. The election's credibility was partly due to the commitment of the National Electoral Council (CNE), in particular, members from the Honduran Liberal Party (PLH) and LIBRE in opposition to the incumbent PNH. The 2021 voter register was overall reliable, despite around 400,000 people failing to receive new ID cards – which were distributed between 2020 and 2021 as part of a new nationwide effort – by election day.

Still, Honduran elections continue to be marked by violence. As in every election since 2009, several candidates were assassinated before the general election. Furthermore, the campaign was, once again, marked by sometimes-extreme rhetoric about what an opposition victory would mean. Throughout the campaign period, state media consistently demonstrated bias against opposition parties and failed to provide them with equitable air time. However, fears that the electoral commission – which was full of Hernández allies – would attempt to undermine the vote proved to be largely unfounded.

Free and fair elections

7



The new Honduran government continues to face old challenges, such as difficulty governing effectively in the face of deeply entrenched vested political and economic interests.

First, the state's administrative capacity is a significant constraint. The government frequently fails to implement political decisions, which also applies in terms of its geographic reach. In large parts of the country, the state's presence is rudimentary, and its ability to act is severely limited. This is illustrated by its failure to put an end to the numerous extortion rackets criminal gangs run, particularly in Tegucigalpa and San Pedro Sula. In some parts of these cities, it is impossible to run a small business without having to pay a "war tax" to street gangs, as confirmed by a 2022 InSight Crime study. The situation has become so severe that the new government imposed a state of emergency, following El Salvador's initiative, suspending many civil liberties in order to "control" this problem.

Second, the role of the military in Honduran politics is important and often decisive. Castro has to strike a difficult balance between "de-militarizing" the government and the state and keeping the military on her side, which is especially relevant since her husband, former President Manuel Zelaya, was ousted by a military coup in 2009. She named her husband's nephew, José Manuel Zelaya, defense minister. For now, this ministry has a larger budget than the Security Ministry, which includes the civil National Police. Simultaneously, Castro has to make good on her promise to reform the state, which includes the effective restoration of civil rule, to which the military is subordinate. The fact that the military is a key economic actor in the country makes this task difficult. Furthermore, the military has assumed key tasks in the public security sector. Castro promised to remove the military from the provision of public security, but due to the declared state of emergency it is still an important actor. The Military Police, created by the previous president, Juan Orlando Hernández, is still on the streets.

Similar observations hold for both religious and economic actors. For instance, Castro has been criticized for her slow progress on improving women's rights when it comes to access to abortion and tackling domestic violence. The influences of both the Catholic and Evangelical Churches are strong, restricting her ability to act. Moreover, the government's lack of a stable majority in Congress makes passing legislation subject to constant negotiations.

In the economic sphere, the new government has scrapped the self-governing "investment zones." While doing so was a key campaign promise, some economic elites have strongly criticized the move, arguing that it will deter investment and leave existing zones in a state of legal limbo.

In short, the political and economic landscape makes governance a constant challenge, creating the risk that the president will not be able to implement her political program.

Effective power to govern

4



Association and assembly rights are guaranteed in the constitution, which is formally widely respected and extensively used. During the Hernández Presidency, many groups – from teachers to peasants to health care workers to students – actively protested, particularly against the privatization of public services and rural economic development projects.

Yet, under the cloak of restrictions imposed to manage the COVID-19 pandemic, the state cracked down on protests with even more ferocity and violence than in previous years. Peasant and Indigenous groups, in particular, faced the almost constant threat of violence, either directly from the state or with its tacit support, especially if those groups actively opposed what the government considered economic development projects. Honduras continues to be one of the most dangerous countries on earth for environmental activists, as shown by the Annual Report of Human Rights Watch. The same goes for defenders of LGBTQ+ rights and critical journalists.

The new government has promised to improve protections for the right to association and protest. Nevertheless, due to the limited reach and capacity of the state, as well as widespread corruption, these promises have not yet led to an environment where anyone, regardless of the group to which they belong, can peacefully protest without fear of intimidation, violence or even death.

Furthermore, under the guise of combating extortion and organized crime, the current government has imposed a state of exception in parts of the country, suspending political and civil rights in the process.

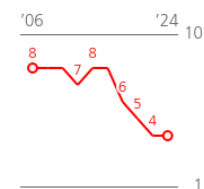
The Honduran constitution formally guarantees freedom of expression. Honduras has, in terms of the number of outlets and ideological breadth, a vibrant media landscape. In practice, however, freedom of expression is not guaranteed. Journalists, particularly those investigating environmental crimes or crimes against Indigenous people, continue to be threatened and often assassinated. According to the Committee for the Protection of Journalists, since 2001, more than 90 journalists have been killed, while many others have been threatened or forced to leave the country. According to the Honduran Human Rights Commissioner, virtually none of these murders and threats ever lead to criminal prosecution or conviction.

Moreover, while there is Freedom of Information Legislation in place, according to the Human Rights Advocacy Group WOLA (Washington Office on Latin America), the law is poorly implemented, and the previous government made considerable amounts of information inaccessible, citing “national security” concerns. Therefore, in practice, access to information remains difficult.

While the restrictions on civil liberties – for instance, suspending Article 72 of the constitution guaranteeing freedom of expression – have been lifted, the new government has followed previous administrations’ tradition of suspending civil liberties in the name of dealing with emergencies. This is apparent in the recent declaration of a state of emergency to address the problem of extortion. The government has effectively assumed extraordinary powers to limit the civil liberties of its citizens.

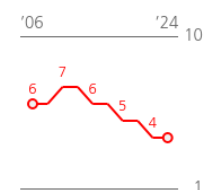
Association /
assembly rights

4



Freedom of
expression

4



3 | Rule of Law

The separation of powers is formally established in the Honduran constitution. In practice, enforcing this separation has always been challenging and, after the military coup in 2009, increased substantially. Successive governments actively promoted the cessation of this separation as a matter of policy. Both the Supreme Court and the Supreme Electoral Tribunal were effectively under the control of the government and no longer functioned as independent institutions. Emergencies such as natural disasters and, more significantly, the COVID-19 pandemic only added to the breakdown in the separation of powers, since declaring a state of emergency formally suspends the normal functioning of the state.

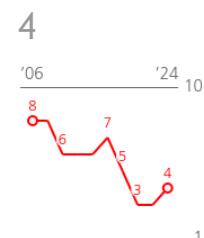
Since the new government came into power, there have been mixed messages with regards to restoring the separation of powers. On the one hand, the government has promised to reform the appointment system for Supreme Court justices with the aim of promoting transparency in the process. Plans to reconstitute internationally sponsored anti-corruption and reform commissions, for instance, for the national police, also suggest a determination to tackle deep-seated corruption that has significantly contributed to the breakdown of the separation of powers.

On the other hand, declaring a state of emergency to deal with endemic extortion suggests that the promise of restoring basic democratic norms might not be met considering the enormous pressure to “do something” about a problem that is driving many small businesses to the edge of ruin. Similar measures in neighboring El Salvador led to soaring approval ratings for incumbent President Bukele. Under the new government, ‘deal-making’ with the National Congress to get legislative proposals approved has continued at pace, often with little to no transparency.

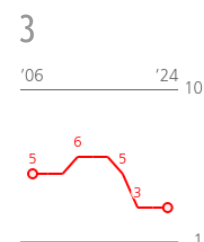
Perhaps one of the most lasting legacies of the post-coup era in Honduras is the total breakdown of judicial independence. Courts essentially became instruments to protect the ruling National Party and its political leaders, including the presidents. In packing the Supreme Court and the Electoral Tribunal with loyalists, former President Hernández succeeded in overturning the ban on presidential re-election and confirming his disputed win in the 2017 presidential election.

His successor, Castro, has made restoring political and judicial accountability one of the main planks of her presidency. She oversaw the extradition of Hernández to the United States and took steps to welcome a new UN-backed anti-corruption commission to the country, one of the main tasks of which will be to propose reforms to restore judicial independence in the face of endemic corruption. However, concrete steps toward reinstating the judiciary’s and prosecutors’ independence have not been implemented as of now. The pivotal test will be in 2023, when we will see if the actions align with the rhetoric regarding transparency and independence.

Separation of powers



Independent judiciary



Castro's commitment to transparency and judicial independence will face its most significant test in 2023, when Congress will be tasked with nominating new Supreme Court Justices and a new Attorney General. She has pledged to ensure transparency throughout this process and to uphold the independence of these newly appointed judges.

For years, there has been a concerted effort on the part of the political class in both the executive and the legislature to destroy what little remained of judicial independence and, with it, the prosecution of office abuse.

The new government came into office with the promise it would take firm action against abuses of power. As a first step, it announced the recreation of an internationally backed commission against corruption. The original, OAS-backed commission was suspended by President Hernández in 2020, after it uncovered several large-scale corruption schemes involving top-level politicians and members of the economic elite. It remains to be seen whether Castro will keep her word. Civil society groups point to recent legislative actions as setting worrying precedents. In her first six months in office, Castro's government managed to get an Amnesty Law through Congress, which, critics say, will make it much harder to prosecute public officials' abuses of power. While Castro has denied that this law is intended to shield public officials from criminal prosecution, civil society groups argue that the law can be used to prevent the prosecution of abuses of power.

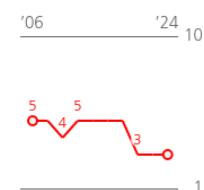
Furthermore, it remains dangerous for the media to cover office abuse. According to Reporters without Borders, Honduras became more dangerous for journalists from 2021 to 2022.

Honduras is party to all major regional and international conventions on civil and human rights and has incorporated these rights into the constitution, backed by an array of laws overseen by national agencies. The existence of a codified guarantee of these rights has, however, not been sufficient to guarantee them in practice. While the new government has promised to do more to protect the civil rights of minority groups, such as Indigenous people and members of the LGBTQ+ community, in practice, violations of their rights continue. The security forces commonly violate civil rights. Legislative action and a lack of political will mean that public agents are often politically shielded from prosecution. Moreover, the private security sector is significantly under-regulated.

Freedom House, in its report on civil rights in Honduras in 2022, states that individuals and groups working in defense of the rights of Indigenous people and members of the LGBTQ+ community face significant intimidation and violence, both from the state and non-state groups defending certain economic interests. So do environmentalists. The Inter-American Commission on Human Rights cataloged the murder of at least 75 human rights defenders between 2014 and the end of 2021. Over two dozen defenders of LGBTQ+ rights were killed in 2021 alone. According to the

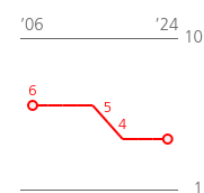
Prosecution of office abuse

3



Civil rights

4



Honduran Center for LGBTI Development and Cooperation (CDC), sexual minority groups continue to face systematic discrimination in the job market, access to social services and justice. Most crimes against members of this community go unpunished.

4 | Stability of Democratic Institutions

The performance of democratic institutions in Honduras continues to raise serious concern. Since the 2009 coup, there has been a deliberate attempt to destroy mechanisms of oversight and control. The new government has pledged to restore these mechanisms. For instance, it pledged to reconstitute an anti-corruption mission under international supervision to continue the work of the Mission to Support the Fight Against Corruption and Impunity in Honduras (MACCIH), which the previous administration disbanded. The new president also pledged to reform the judicial appointment system, particularly for the Supreme Court, to make the system more transparent and restore the independence of the judiciary. Whether this will occur in practice remains to be seen.

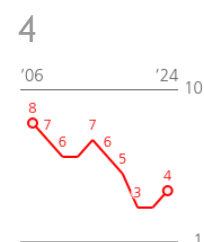
Notably, the new government has not reversed some of the reforms introduced by its predecessor. For instance, some of the changes Congress approved to the country's criminal court, which hinder the investigation of large-scale criminal groups, continue to be in force, although others have been reversed. Similarly, the decision in December 2022 to impose a state of emergency to address endemic extortion of businesses by criminal gangs has suspended some accountability mechanisms, especially with regards to the police.

Independent of the current government, one key area of progress is the strengthening of the electoral process and the institutions overseeing it. Both the National Electoral Council and Electoral Justice Court, created in 2018/19 and operational in the 2021 elections, helped to restore some level of trust in the fairness of national elections. Observers consider them one of the key reasons for the relatively peaceful, transparent nature of the electoral process, as well as acceptance of the electoral results.

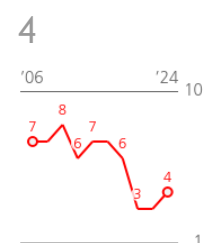
The key actors in Honduras – whether political or economic elites or churches – are formally committed to democratic institutions and their functioning. Restoring a functioning democracy was a key plank in the new government's election campaign. In this respect, it is noteworthy that the new president was elected based on her appeal to a broad electoral coalition and with the support of other parties that are not traditional allies of the president's party, LIBRE. However, some actions since then have raised concerns about this public commitment to restoring democracy.

The decision to impose a state of exception in the country to deal with extortion is, at best, an admission of the state's weakness in the face of organized criminal actors. At worst, it represents a return to the authoritarianism that has been the hallmark of

Performance of democratic institutions



Commitment to democratic institutions



Honduran politics for many years. These tactics are evidenced in neighboring countries, such as El Salvador, where cracking down on criminal actors is hugely popular with the public even when it undermines democratic institutions.

Furthermore, the president's relations with Congress are often tense and have been since she assumed office. Thus, democratic institutions are often seen as transactional or even expendable when they do not serve particular political objectives.

5 | Political and Social Integration

The party system in Honduras has undergone major changes, which were confirmed and accelerated by the 2021 elections. One notable shift is the ongoing decline of the two long-standing parties, the PNH and PLH, which have historically maintained their influence through clientelist practices and patronage. The PNH not only lost the presidency but also relinquished its position as the largest party in Congress, experiencing a loss of 17 seats and securing only 44 out of 128 seats. Simultaneously, the PLH's decline persisted, as it came in third in the presidential election with just 10% of the vote and lost five congressional seats, leaving it with only 22.

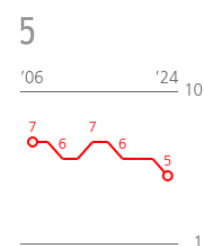
The 2021 elections also confirmed LIBRE's ascent as a major political force, clinching victory in both the presidential and congressional races. However, it might be premature to label this as a definitive, enduring shift for two main reasons. First, at the presidential level, the opposition coalesced around a single candidate, enabling Castro to capture the majority of anti-National Party votes. The sustainability of this electoral coalition in 2025, when LIBRE will be the incumbent party, remains uncertain. Second, at the congressional level, LIBRE is not a cohesive ideological bloc, and internal tensions have complicated Castro's relationship with Congress.

While it is evident that the party system has evolved in recent years, it is too early to conclude that it has stabilized. Further fluctuations in the political landscape are possible. Moreover, internal divisions persist, particularly within the LIBRE party, contributing to challenges and fractures in the relationship between the government and Congress. The polarization of left-wing and right-wing rhetoric, a relatively new phenomenon in Honduras, is intensifying. Additionally, conflicts within the party coalition resulted in a rupture when selecting the president of Congress in January 2022.

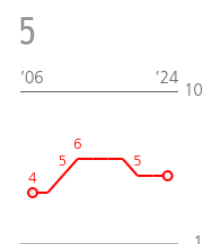
Honduras has a vibrant and active third sector. Prior to the 2021 elections, interest groups – particularly human rights groups, environmental groups and students – were key actors in protests against government policy and corruption.

Yet, there is still a considerable discrepancy between the degree of representation of interest groups and their ability to work freely. So, while groups defending the environment, for instance, have gained some prominence (albeit still under the threat of violence from entrenched economic interests), other groups continue to face

Party system



Interest groups



enormous difficulties. The government has been criticized for not moving fast enough on many of its promises regarding improving rights for minority groups, such as women and sexual minorities. Often, the government is caught between the demands of these interest groups and traditional actors, such as economic elites, which have significant representation in Congress and considerable influence over the government. While there has been steady progress in implementing some of the electoral promises made to interest groups, the government runs the risk of not fulfilling civil society's expectations, which may have been unrealistic.

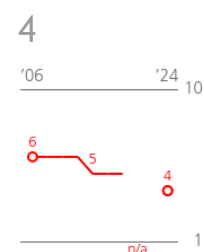
According to Latinobarómetro 2021, all social indicators in Latin America have worsened in the last couple of years, including in Honduras. The COVID-19 pandemic negatively affected social conditions in Honduras considerably, as have several severe weather events since 2020. This had led to a steady erosion of trust in democracy and its institutions. According to the Latinobarómetro 2021 report, only 30.1% of Hondurans prefer democracy to any other kind of government, the lowest approval rate in the region. The regional average is 49%.

There were also two positive developments: First, in 2019, Congress approved a new electoral law that incorporated several reforms, including improvements to the voter registration process and new oversight bodies. Second, voter turnout in the 2021 elections was considerably higher than in previous elections. At just over 69%, turnout was almost 12% higher than for the 2017 elections. This suggests both a desire for change and increased trust in the electoral process, which is critical to the consolidation of democracy. It is thus possible that approval of democracy may be increasing, though it is too early to tell. It would be wise to wait for confirmation of this trend during the next elections.

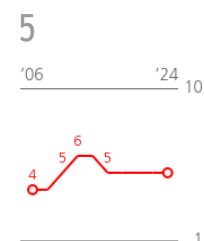
It is important to note that some actions the government has taken – such as imposing a state of exception to deal with organized crime – are undemocratic yet enjoy a high level of public support. This suggests that support for democracy includes the rather narrow definition of holding regular elections but not the broad, normative definition, at least when it comes to questions of personal security.

Honduran society continues to grapple with stark disparities, whether they are economic, social or political in nature. These disparities have eroded trust between the populace and the government over several decades. Consequently, exacerbated by the impacts of the COVID-19 pandemic and severe weather events since 2020, civil society organizations have stepped in to assume significant roles in addressing the pressing needs of the population, especially at the local level and in underserved communities. Their efforts have encompassed providing essential food and clean drinking water, as well as offering emergency assistance to individuals unable to work due to the pandemic. In these specific communities, there exists a robust bond among citizens characterized by a sense of solidarity.

Approval of democracy



Social capital



However, when we look at interactions between different communities, such as impoverished neighborhoods and middle- to upper-class districts, the dynamic often revolves around a provider-consumer relationship. A large portion of the less affluent population engages in informal employment, frequently serving the wealthier communities, as outlined by the International Labour Organization (ILO). This arrangement created significant social tensions during the pandemic, particularly when lockdown measures disrupted these informal relationships in many instances.

According to the 2021 Latinobarómetro survey, 15% of Hondurans expressed trust in the majority of people, surpassing the regional average of 12%. Nevertheless, this represented only a marginal 1% improvement from the 2018 Latinobarómetro edition.

II. Economic Transformation

6 | Level of Socioeconomic Development

Honduras remains one of the poorest and most unequal countries in the Western Hemisphere, with a Human Development Index (HDI) score of 0.621 in 2021 (down from 0.632 in 2019) and a global rank of 137, a ranking that has improved little over the past decade.

Inequality in Honduras is deeply entrenched and systemic, affecting all aspects of society. This has had a significant impact on a substantial portion of the population, especially those who work in the informal economy, which has made them vulnerable to economic and social challenges during the pandemic. There are some signs of socioeconomic progress in recent years, although this is usually measured against the exceptionally challenging year of 2020 during the pandemic. In 2019, Honduras had a Gini index of 48.2, indicating high income inequality. The overall loss in HDI due to inequality was 22.9%, placing Honduras only ahead of Brazil (23.6%), Guatemala (26.6%) and Haiti (38.9%) among Latin American and Caribbean countries.

While GDP rebounded to pre-pandemic levels, with the economy growing by 12.5% in 2021, according to the World Bank, the persistence of extreme poverty is concerning. Approximately 48% of the population continues to live in poverty, with 22.9% in extreme poverty. More worrisome are certain trends that suggest structural inequality is worsening over the long term. For example, USAID data reveals that, even before the pandemic, 35% of adolescents in Honduras were not enrolled in secondary education, making it the worst-performing country in the region in this regard.

Question
Score

Socioeconomic
barriers

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Historically, Indigenous people and women have experienced systemic discrimination, facing a higher likelihood of living in poverty and being unemployed. Women in Honduras earn only around 65 cents for every dollar men earn, according to Oxfam. The Gender Equality Index has remained virtually unchanged since 2014, with Honduras at 0.431 in 2021.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	25089.9	23827.9	28488.7	31717.7
GDP growth	%	2.7	-9.0	12.5	4.0
Inflation (CPI)	%	4.4	3.5	4.5	9.1
Unemployment	%	5.6	10.7	7.9	7.1
Foreign direct investment	% of GDP	3.8	1.0	2.8	3.4
Export growth	%	2.4	-20.8	21.5	5.8
Import growth	%	-2.4	-18.5	33.0	4.8
Current account balance	\$ M	-660.9	665.9	-1317.5	-1015.0
Public debt	% of GDP	43.8	51.7	49.8	49.1
External debt	\$ M	9744.8	11025.5	11850.1	-
Total debt service	\$ M	891.0	1523.1	1180.1	-
Net lending/borrowing	% of GDP	-	-4.4	-	-
Tax revenue	% of GDP	-	14.8	-	-
Government consumption	% of GDP	13.5	15.0	14.6	14.2
Public education spending	% of GDP	5.9	6.0	5.8	5.4
Public health spending	% of GDP	2.9	3.4	3.4	-
R&D expenditure	% of GDP	0.1	-	-	-
Military expenditure	% of GDP	1.6	1.5	1.5	1.5

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Honduras has a functioning market economy that, on paper, is relatively well organized and provides a legal and institutional framework for fair competition and the protection of the consumer.

Yet, the country continues to face huge obstacles in developing a market economy that includes the majority of its citizens. Inequality is stark – the worst in Latin America, according to the most recent data from Oxfam – and endemic corruption leads to market distortion and the development of deeply entrenched criminal structures, particularly in public procurement. According to the Global Initiative against Transnational Organized Crime 2021 report, the distinction between the state and criminal organizations is somewhere between hazy and nonexistent. This, in turn, distorts the functioning of the market and complicates foreign investment. So, while there is no formal impediment to foreign ownership, in practical terms, the criminal structures that infiltrate the market economy make foreign ownership very risky.

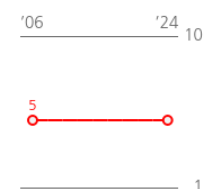
One key challenge for the country is to expand its formal economy. Recent data is unavailable. In 2021, the International Labor Organization (ILO) noted that self-employment and informal employment accounted for 56.5% of total employment in Honduras and is characterized by low wages and high instability, a situation that the pandemic exacerbated. Part of the problem is the extremely complicated procedure for opening a business in Honduras. Not only is the process extremely bureaucratic and open to corruption, but the country also continues to confront serious logistical challenges, for instance, in transport and energy. These structural challenges have worsened due to climate disasters in recent years. Overall, the key challenge in Honduras to the smooth functioning of its market is the lack of certainty and predictability. High risk translates into high costs that deter investment.

The competition policy in Honduras follows a pattern familiar in virtually all areas of its regulatory policy: On paper, the country has a relatively well-defined framework that allows for fair economic competition. Key to this framework is the Comisión para la Defensa y Promoción de la Competencia (CDPC), whose main responsibilities are application of the law as it relates to regulating market competition and advocacy for creating a competitive market environment. The CDPC also represents Honduras in the International Competition Network, an informal grouping of competition authorities devoted to improving competition law and its enforcement.

However, two issues impact the functioning of this framework, one structural and one political. Structurally, the country suffers from poor enforcement of the framework's laws and rules. In its 2021 Investment Climate Statement, the U.S. Department of State bemoaned the “unreliable and expensive electricity, corruption, unpredictable tax application and enforcement, high crime, low education levels, and poor infrastructure,” all of which prove disincentives to investment.

Market organization

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Competition policy

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Politically, the change in government has brought some uncertainty about the overall direction of competition policy. While the previous government was very proactive in liberalizing competition policy – including in the delivery of public services – the new government has abandoned plans to privatize public services and special investment zones. This has led to tensions with Honduran economic elites and the United States. Domestically, however, these policies have considerable public support. Plans to privatize parts of the health and education system were one of the key causes of a wave of protests against the previous government of President Hernández in 2019 and 2020.

It is unclear whether Castro is politically strong enough to follow through on all her promises to roll back neoliberal economic policies. Some of her early actions suggest that political realities may temper her commitment. For instance, while Castro promised to repeal laws that enshrined impunity for some forms of corruption, she has not gone as far as organizations fighting for more transparency would have liked. For instance, legislation Congress passed in 2019 and 2020 that made it harder to investigate allegations of corruption is still on the books.

Honduras became a member of the WTO in 1995, signifying its relatively open economy. However, as per the 2022 Index of Economic Freedom, there was a slight decrease in the economy's openness compared to 2020. While the same report indicates that the country has improved its regulatory efficiency, thus promoting foreign direct investment, the overall measure of 'trade freedom' experienced a minor decline, primarily due to measures implemented in response to the COVID-19 pandemic.

The United States remains the primary market for Honduran exports, although the proportion of total exports going to the United States has decreased to less than half, according to data from the OEC Trade Consultancy. Meanwhile, Honduras, as a member of the Central American Integration System (SICA), actively pursues trade liberalization agreements. Examples include the agreement with the European Union signed in 2012 and the agreement with the United Kingdom in January 2021. Textiles comprise the majority of Honduras' exports, accounting for 40% of total exports, followed by agricultural products.

There have been concerns, notably from United States authorities, regarding what is perceived as a reversal in trade liberalization by the new government, with the discontinuation of special investment zones cited as one example. The government, however, argues that such initiatives are rooted in workers' rights and do not reflect a shift toward a more protectionist economic and competition policy. Non-tariff barriers (NTBs) have not seen an increase, and the average Most-favored nation (MFN) tariff applied in 2021 remained stable at 5.8%, according to data from the WTO.

Liberalization of
foreign trade

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The Honduran banking system continued to be relatively stable during the COVID-19 pandemic and the economic challenges it brought. According to the World Bank, the bank capital to assets ratio declined from 11.2 in 2019 to 10.4 in 2021, a reflection of the pandemic, but a sign of stability overall. The percentage of non-performing loans held by banks in the country crept up only slightly to 2.7%, compared to pre-pandemic figures. In its 2021 review, the IMF commended Honduras for continuing to improve the resilience of the banking sector by implementing internationally agreed safeguards, creating “strong buffers” against a possible banking crisis, including through increased transparency of financial activity.

The new government has pledged to promote the financial inclusion of all segments of the population. To this end, the Banking and Insurance Commission (CNBS) has been given key new regulatory tasks, such as administering the opening and supervision of basic savings accounts. Institutions such as the World Bank and the IMF see the CNBS’ continued supervision of providers of financial services as an example of good governance.

8 | Monetary and fiscal stability

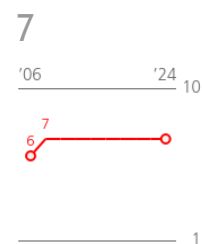
The economic crisis the COVID-19 pandemic caused made maintaining monetary stability harder for a government that has made the maintenance of monetary, and fiscal, stability its overriding policy goal in order to attract external investment.

Overall, the country emerged from the pandemic in a relatively stable position. Inflation in 2021, after the end of lockdown, was 4.5%, only slightly above the rate in 2019, the last year before the pandemic. However, the country closed 2022 with 9.8% inflation. This is not just a result of the pandemic but of a series of natural disasters that have befallen Honduras since the end of 2019, which coincided with the pandemic. In 2021, the IMF provided \$125.8 million to help Honduras meet its fiscal needs. The IMF states that Honduras needs to undertake further reforms to its monetary policy regime, including strengthening the political and operational independence of the central bank, objectives that the new government has not questioned. Control of inflation will continue to be the main policy objective going forward. However, due to the largely informal nature of the economy, monetary instruments for inflation control have limited utility in Honduras.

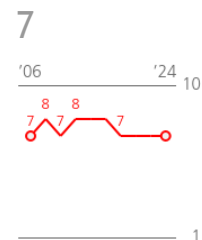
Another central plank of reforms the IMF proposed – restructuring the public sector – has not been embraced, however. The new government has not committed itself to further privatizations, and any reversal on this would create significant political difficulties and most likely lead to public protests and social instability.

The central bank continues to use the Electronic Foreign Exchange Trading System mechanism to adjust exchange rates. The exchange rate has remained generally stable, despite the challenges the pandemic and change of government posed.

Banking system



Monetary stability



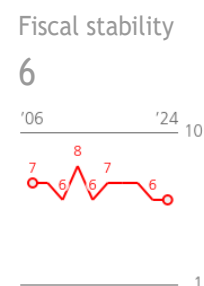
According to ECLAC, the real effective exchange rate index (2015=100) hovered around 100 in the 2010s, showing a slight appreciation from 2020 to 2022 (96.9, 94.4 and 94.5, respectively).

The maintenance of fiscal stability has been an overriding policy objective for successive Honduran governments, reaffirmed as part of the country's loan agreement with the IMF in 2019, which committed Honduras to further fiscal consolidation, for instance, through the cutting of public expenditures and privatization of public services.

Two factors have undermined this objective: First, the COVID-19 pandemic required public expenditures, especially in light of the natural disasters that occurred beginning at the end of 2019. These twin crises made millions of people dependent on the state for their very survival. The second factor is the macroeconomic orientation of the new government. Here, signals are sometimes contradictory. While, for instance, the new president has signaled she will increase public spending, she has actively engaged with the IMF to seek a new debt deal and reduce debt payments. At the same time, she has publicly opposed tax increases. It is not yet clear which direction the government will ultimately choose.

COVID-19, natural disasters and the fallout from Russia's full-scale invasion of Ukraine have severely reduced the room for maneuver in terms of fiscal policy. In 2020, public debt shot up to 52.4% of GDP, almost 10 percentage points higher than in 2019. It has fallen back slightly since (50.2% in 2021). The cost of debt servicing almost doubled between 2019 and 2020. The current account balance also moved from a surplus of \$666 million (2020) to a deficit of \$1.3 billion in 2021 and \$1.0 billion in 2022.

Even so, Castro inherited an economy that rebounded strongly from the nadir of the pandemic in 2020, which will bring in higher tax revenues, even accounting for the large informal sector. Critically, remittances to Honduras from abroad have also rebounded, almost doubling from their 2020 low point, which will stimulate domestic consumption. Despite these positive signs, the overall fiscal environment remains uncertain.



9 | Private Property

Honduras has a consolidated body of laws addressing property rights. However, there is a discrepancy between the existence of these rights on paper and their application and enforcement in practice, which are unsatisfactory. This weakness is linked both to the administrative capacity of the state and to the country's pervasive inequality. The overall inefficiency of the justice system, which is not only not accessible to all but is likewise characterized by corruption and chronic delay, is also a major obstacle. Disputes over property rights take, on average, a little over two and a half years to resolve, though it is likely that this has worsened as a result of the pandemic (more recent data is not yet available). Significant sections of the population cannot afford to defend their property rights through official judicial channels.

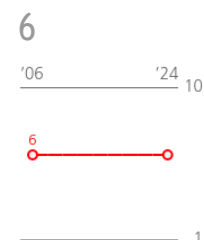
There are six steps to registering private property in Honduras. The national property register is administered centrally by the Tegucigalpa Chamber of Commerce and Industry. However, the system continues to suffer from structural weaknesses, which means that, for many, property rights cannot be guaranteed. Research by Transparency International found that it can take up to six years for a property to be legalized when, officially, it should take six months.

In poor areas, in particular, parallel property markets continue to exist, controlled by gangs and other criminal groups. At the same time, in rural areas, land conflicts between peasants and companies continue, with the government accused of not fulfilling its promises to reform land ownership in these regions.

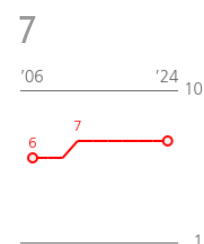
Successive Honduran governments have promoted private enterprise as an engine for economic growth. Thus, legally, the protection of private enterprise and the rules according to which it must operate are well established. Yet, three problems continue to hamper the performance of the private sector. First, the privatization of public services has given rise to enormous corruption scandals and been fiercely resisted by a majority of the public. Second, the state has huge problems guaranteeing the application of laws to protect private businesses so they can operate smoothly. The presence of the state is frequently not strong enough to guarantee property rights. Corruption also eats away at the state's ability and capacity to protect private property. Third, and related, small businesses in particular are subject to almost constant threats from criminal gangs. Extortion is endemic, especially in and around urban centers. This problem has reached such proportions that the new government declared a state of emergency, giving the state and the police, in particular, extraordinary powers to deal with what the state describes as a threat to both the economic well-being and security of the population at large and especially to small business owners.

While the new government has not proposed changing its focus on the private sector to generate wealth, there has been a noticeable shift, at least rhetorically, as to what this means in practice. Protection of the environment has been elevated as a

Property rights



Private enterprise



government policy objective, if necessary, at the expense of mega-infrastructure projects that were the hallmark of its predecessor. Such projects, according to new government guidelines, will only proceed with the consent and active participation of the local communities most directly affected by them.

10 | Welfare Regime

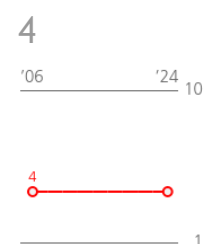
A rather rudimentary welfare system funded through general taxation covers individuals engaged in formal employment. The system primarily offers pensions, albeit very modest ones, along with some limited sick leave and incapacity benefits. Distinct welfare structures exist for public and private sector employees. In the public sector, institutions such as the Institute of Retirement and Pensions for government workers and civil servants of the executive branch (INJUPEMP) and the Institute of Teachers Welfare (INPREMA) manage benefits like pensions and sick pay. Because employment in these sectors is formal, the system generally functions reasonably well, though there have been several reforms in the last 15 years, including increased employee contributions.

Conversely, in the private sector, most plans receive contributions from both employers and employees, with specific details contingent on the chosen pension plan. However, due to the prevalence of informal employment in Honduras, a large segment of the population is outside the state's safety net. Informality is a particularly acute issue for women and those working in the agricultural sector.

The health care system has encountered substantial challenges in recent years, exacerbated by the pandemic. These difficulties arose following a prolonged period of austerity, during which health care spending declined from 9% of GDP in 2009 (the year of the military coup) to slightly under 7% in 2019, according to the World Bank. Additionally, similar to many other public services in the country, corruption has weakened the health care and social security systems. Widespread protests against this corruption and the resulting deterioration in service quality played a pivotal role in the defeat of the National Party (PNH) in the 2021 elections.

The new government has pledged to boost investment in the general welfare system, including social protection for women engaged in informal employment. Nevertheless, the fiscal capacity for significant reforms or a substantial increase in spending on such services is exceedingly limited.

Social safety nets



Honduras has a reasonably well-developed legal framework for guaranteeing equal rights. These include passing important legislation, including the Law on Equal Opportunities and requirements for a minimum 30% participation of women in all popularly elected institutions. Yet, achieving equal opportunities in practice remains a distant dream for many groups in Honduran society, from women to Indigenous people to sexual minorities. It is, therefore, a notable fact that Honduras elected its first female president in 2021. She has promised to change the penal code to increase sentences for crimes against women and other hate crimes. Equally, female representation in Congress has steadily crept upward, reaching 27% in the 2021 elections, according to data from Honduras' National Congress.

As has been the case for many years, girls continue to stay in school longer than boys, representing the majority of pupils in secondary education. They also have a slightly higher literacy rate than boys. Despite higher educational attainment, however, women still face enormous difficulties entering the formal labor market, with only 35.4% of women in employment in 2021, according to the World Bank. More worryingly, this represents a drop of over 3% since 2018, which did not increase when COVID-19 restrictions ended.

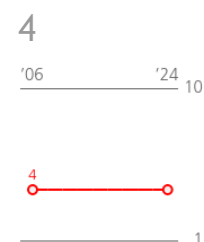
The Indigenous population likewise suffers from a lack of equal opportunity. The new government has promised action to clamp down on discriminatory practices and to protect Indigenous land from economic exploitation, such as mining. However, civil society representatives have protested fiercely that little has been done to stop the destruction of Indigenous land. Furthermore, as has historically been the case, violence against this population is commonplace and continues to go largely unpunished. The same can be said about the LGBTQ+ community. According to the 2022 Human Rights Watch Report, Honduras remains one of the most dangerous countries in the world for sexual minorities. Both the state and other groups, such as street gangs, commit violent acts against members of the LGBTQ+ community, which virtually never lead to criminal prosecution, less so convictions.

11 | Economic Performance

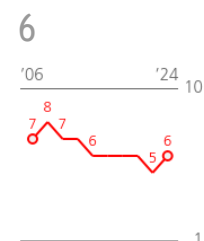
Honduras was hard hit by the COVID-19 pandemic and simultaneous devastating natural disasters. Since a significant part of the country's economy is informal, the impact, particularly on the poorest members of society, was severe. GDP overall, as well as per capita, fell; unemployment rose from 5.7% in 2019 to about 8.5% in 2021, and FDI almost collapsed from 6.0% of GDP (2018) to 1.0% in 2020.

However, the country bounced back strongly from the pandemic once the state of emergency and social restrictions were lifted. In 2021, GDP per capita, at \$6,253, had surpassed its pre-pandemic level. After a 9% drop in 2020, total GDP grew by 12.5% in 2021, according to the World Bank. The IMF expects growth of 3.5% for 2023. With this increased economic activity and an associated growth in tax revenues, it was possible to reduce overall public debt to just over 50% of GDP in 2022.

Equal opportunity



Output strength

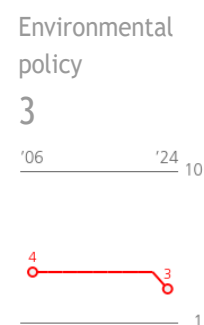


Significant challenges still remain. The first is to incorporate more people into the formal labor market, which would significantly increase revenues, increase domestic consumption and provide more people with far more material security. Second, while the growth in GDP per capita is welcome, this has not overcome structural inequality. A return to pre-pandemic levels is a return to a less-than-perfect place. Prior to the pandemic, GDP per capita growth had been anemic for several years. In order to address these challenges, the economic base needs to broaden both domestically and internationally. Also noteworthy in this respect is inflation. While it remained relatively stable during the pandemic, closing 2020 at 3.5%, according to the World Bank, it has since increased, with the Honduran central bank expecting to end 2022 with 10.3% inflation.

12 | Sustainability

Under the previous government, Honduras pursued an environmental policy that put economic development clearly ahead of environmental concerns. Mining developments on Indigenous lands and tropical forests were common, as were many other mega-infrastructure projects like dams. This often led to tensions with, and violence against, local communities that were implacably opposed to such megaprojects. These conflicts often culminated in the murders of prominent rights activists, Honduras having been, for many years, one of the most dangerous countries in the world for environmental activities, according to reports by Human Rights Watch, among other organizations.

While President Castro promised an economic development policy that is more sustainable and environmentally friendly than her predecessors with close consultation with affected communities, she has been accused of favoring economic interests at the expense of the environment. Examples include the continuation of controversial mining projects and a supposedly temporary subsidy and tax relief for diesel fuel, introduced in 2022. According to the U.S. State Department, the government has not established concrete policies to reach a net-zero emissions goal by 2050 and to mitigate greenhouse gases. Sectoral studies have, however, been undertaken in collaboration with the United Nations to determine nationally determined contributions, and recommendations were made to limit greenhouse gases. In 2022, the Castro Administration established an Environmental Cabinet comprised of the Ministries of Environment, Forestry, Agriculture, Energy, Economic Development and Finance and the Protected Areas and Wildlife Institute to coordinate interagency efforts to address climate change, conservation of biodiversity and forestry management. Steps were also taken to implement climate-related policies, including a National Adaptation and Climate Strategy and a Biodiversity Strategy. Still, the government has not implemented public procurement policies that take into consideration resource efficacy, climate resilience and pollution reduction.



Education expenditure has been low. According to the World Bank, during and since the pandemic, the country has not reached the level of expenditure, which, at its height in 2014, was 7.1% of GDP. Education policy has historically represented a challenge for Honduras. In the U.N. Education Index, Honduras ranked 96th out of 134 BTI countries and scored 0.518, the third lowest in the region, only ahead of Guatemala and Haiti. While the country has a good record of enrolling children in primary education (96.53%, according to a recent report by USAID) and literacy rates have remained stable (88.5% in 2019), drop-out rates continue to be high once children enter secondary education, particularly among boys. According to the same report, 700,000 children up to 17 years of age are outside formal education, considerably higher than in 2019, the last year before the pandemic, when 577,841 children did not receive a formal education. While this problem is not new, the pandemic brought it into sharp focus when in-person teaching was suspended. There are concerns about the long-term effects of this interruption in education, particularly for people living in slums or rural areas without access or with only intermittent access to the internet.

Structural problems in education also have an impact on R&D. The country does not produce enough highly qualified people with higher education degrees; nor does it invest sufficiently in research and development. According to the Global Innovation Index 2022, Honduras ranks 113th out of 132 countries in terms of innovation capacity, continuing a downward trend since before the pandemic. As in previous years, a lack of available, reliable data makes assessing this area of public policy extremely difficult. For instance, the most recent data on R&D available from the World Bank dates from 2017.

Education policy /
R&D

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Governance

I. Level of Difficulty

Honduras continues to be hampered by a number of deeply entrenched, persistent structural difficulties, all of which the pandemic and recent natural disasters have exacerbated. So long as these structural constraints persist, the country will not be able to fulfill its potential, which is considerable, bearing in mind its favorable geographic position.

To begin with, Honduras suffers from deficient infrastructure. The recent natural disasters have, once again, revealed a lack of resilience when it comes to the provision of water, energy, etc. Millions of people are not connected to official networks and rely on precarious “wildcat” connections. Even the official network is not able to withstand severe weather events. It is not uncommon for the country’s main business hub, San Pedro Sula, to have no electricity. Without concerted, continuous action, this vulnerability is likely to persist and even worsen, as Honduras is one of the countries most vulnerable to the effects of climate change, according to a series of reports by the United Nations and other organizations.

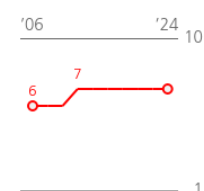
A consistent lack of long-term planning on the part of the government has been cited as a persistent problem. This is exacerbated by the structure of the country’s economy, which is extremely vulnerable to external shocks, such as a downturn in commodity prices or the decline of demand from the United States, for instance, for manufactured textile products. The country continues to be exposed to factors beyond its direct, immediate control, though the importance of the United States as a market for Honduran exports has declined somewhat over the last few years.

The second key difficulty in Honduras is the general level of insecurity, along with high levels of violence. While the level of violent crime has remained below the peak of 2014, there was an uptick in the homicide rate between 2020 and 2021, reversing a downward trend that had lasted several years. In 2021, the homicide rate was 38.6 per 100,000 people, making Honduras, once again, the most violent country in Central America.

Furthermore, highly organized crime groups, which often have deep connections to state agencies, challenge governance capacity. Sophisticated criminal structures, endemic corruption and highly effective extortion networks all continue to hollow out the state and make long-term planning, strategic decision-making and decisions

Structural
constraints

7



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about investment more difficult than would otherwise be the case. A good example of these problems is Comayagua International Airport. The country's new main international airport was both much needed and plagued by the corruption allegations common in Honduran public-private partnership projects, involving businessman Lenir Pérez and the government of former President Hernández.

Honduras has a long tradition of an active civil society in many issue areas, with the environment and civil rights receiving particular attention since the military coup of 2009. Yet, civil society groups have not always acted cordially among themselves, for instance, over the question whether and to what extent they should work with or against the government to effect change. This has led to internal divisions and subsequent losses in political effectiveness and influence. This split is, among other factors, the result of different experiences of the consequences of activism. There is general suspicion of the state, borne out by years of experience of interacting with it. Thus, many groups define themselves primarily in opposition to it, reinforcing the deep mistrust that exists between the population and the state.

Civil society is vibrant and visible, but quite diffuse. Its degree of organization continues to be generally weak.

Honduras faces an apparently contradictory situation: on the one hand, there is no risk of conflict with any of its neighbors. On the other hand, the country continues to suffer from endemic levels of interpersonal violence and the presence of criminal groups from the local to the international level, which the state seems unable to confront in an effective and sustainable manner.

The last couple of years have seen another increase in homicides, according to the National Violence Observatory. The exact reasons for this are a matter of intense debate. On the one hand, they indicate the state's confrontational approach to gangs. On the other hand, increasing numbers of homicides have historically emerged from territorial disputes between rival gangs and other criminal groups and/or the splintering of existing groups into rival factions. Civilians are frequently caught in the crossfire of violent confrontations or become the victims of attempts by one group or another to establish control over a given area. The country also suffers from numerous conflicts between landless peasants and landowners in rural areas, including recent conflicts in Bajo Aguán. Human rights organizations routinely call attention to the human rights abuses of peasants there. Targeted assassinations of environmental campaigners are common.

While the new government has promised a more holistic approach to fighting violent crime, iron-fist policies remain very popular among the general public and therefore politically difficult to reverse.

Civil society traditions

6

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Conflict intensity

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On a positive note, there are tentative signs that one key driver of conflict in the country has lost potency. While there was some violence during the 2021 elections, a peaceful transition of power took place. With a broad coalition backing Castro during the elections and her clear victory confirmed by the electoral body, the likelihood of challenging the results, and thus post-election conflicts and violence, were significantly diminished. It is, however, unclear whether the broad coalition supporting the president and her government is sustainable over the long term and thus whether the current lull in political violence will endure.

II. Governance Performance

14 | Steering Capability

Honduras has undergone a fundamental shift in political priorities over the last two years. The previous government of President Hernández had two consistent policy priorities: economic liberalization and an iron-fist public security policy, which were pursued at almost any price. While the iron-fist security policy received broad public support, economic liberalization and mega-infrastructure projects encountered fierce opposition, which the government ignored.

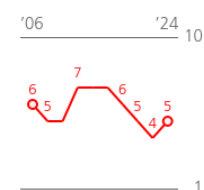
President Castro's government came to power under a banner of change, which included both what was done and how. In terms of what, the government promised to intensify its fight against corruption, pursue economic growth in the context of environmental sustainability, and promote and protect women's and minority rights. In terms of how, the new government promised to engage far more with the communities and groups most directly impacted by its policies.

Winning a "change" election after 12 years of one-party rule, the current government faces the problem of sky-high expectations in almost every sphere of public policy, the economy, public services and the fight against corruption. These expectations are pressing in a post-pandemic context, where needs are enormous yet the room for political and fiscal maneuvering is tiny. The government thus has an urgent need to prioritize, but doing so inevitably leads to tensions and disappointment. The emergence of these tensions was already apparent during the first year of Castro's government. Due to the volatility of Congress and the consequences of the pandemic and severe weather events, the government has focused mainly on economic recovery. The issues of rights and environmental protection, by contrast, have not received as much attention as many government supporters might have hoped. Some environmental activists and women's rights groups have publicly voiced their disappointment with what they regard as slow progress on these issues.

Question
Score

Prioritization

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One key issue is the poor central coordination of policy across the administration. The OECD's review of Honduras states that policy coordination is weak and many initiatives are poorly planned, poorly executed and overlapping. The creation of the Secretariat of Strategic Planning improved things somewhat, but the government still lacks a clear multi-year planning framework, as well as a clear timetable for implementing initiatives. Organizations such as Transparency International have also noted that the lack of transparency in government action and finances impedes delivery.

Honduras continues to suffer from significant difficulties implementing agreed-upon policies and initiatives. It lacks the administrative capacity to implement policies consistently across time and space. In fact, in many regions – both rural and parts of some of the bigger cities – the state essentially has no physical presence, making policy implementation impossible, a situation that worsened as a result of the COVID-19 pandemic.

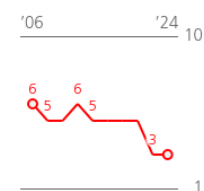
With the pandemic, the government has been in almost permanent crisis mode, worsened still by the fact that ex-President Hernández spent his last year in office (2021) focusing almost entirely on his political survival. The new government has also found it difficult to engage in strategic thinking. It is too often swayed by public opinion, such as when it declared a state of emergency to deal with organized crime or failed to create the promised Community Police and instead strengthened the role of the military police.

Policy learning in Honduras has consistently been weak, influenced by both social and political factors. Socially, a significant portion of the population has historically lived in poverty, and a succession of highly authoritarian governments discouraged long-term thinking and planning. Politically, the primary objective of any government, as well as the state as a whole, has been the preservation of the existing power structure rather than the pursuit of long-term and strategic change. As a result, policy learning has not been incentivized in a culture that predominantly prioritizes short-term gains. These trends intensified during the final years of the previous government, which grew increasingly authoritarian. Decision-making became highly centralized around a president whose primary focus was self-preservation and maintaining control.

The Castro government has promised to be more engaged with civil society and those on the ground directly impacted by its policies. There has been more consultation with communities impacted by economic development initiatives. However, many civil society groups have complained that their data are ignored in favor of vested interests, whether in economic development or women's rights. The composition of the government is more representative of the county as a whole than previously, which should, in theory, allow for more inclusive policymaking.

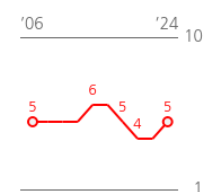
Implementation

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Policy learning

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During her first year, Castro made some progress toward transparency, promising not only a reform of judiciary appointments, including Supreme Court justices, but also repealing the Secrets Law for classifying public documents on national security and defense. The year 2023 will be key to seeing if these promises will be realized. There are other issues. The state remains too centralized. Control, where it exists, is often exercised by international organizations that produce regular assessments of “delivery plans.” However, since these assessments are linked to specific, limited programs (such as public sector reforms), the sustainability of progress cannot be guaranteed.

15 | Resource Efficiency

There is no efficient use of resources in Honduras. Three factors are largely responsible for this problem. First, the Honduran state is corrupt, to the extent that some analysts argue that corruption is the country’s operating system. Senior politicians and even entire state institutions are implicated in corruption and large-scale international crime. For instance, shortly after the end of the review period, former President Hernández was detained and later extradited to the United States to face drug charges.

Linked to this is a second problem, the lack of effective oversight of the administration, or indeed any branch of the state, by any other branch of the state. Oversight has always been a problem, precisely because corruption is so widespread that it exists in those branches of the state that should provide oversight of government activities.

This is linked to a third point, the state’s lack of capacity when it comes to fulfilling its functions across the country’s entire territory. The Honduran state does not have control over all Honduran territory. It is also involved in criminal activities, from which many of its civil and public servants and politicians benefit. Thus, here is no incentive for change.

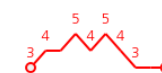
A fourth problem is clientelism. Most of the civil service in Honduras does not hold permanent positions. With every change in government, a significant portion of the bureaucracy is occupied by new staff. As a result, retaining power becomes a primary objective and short-term thinking dominates. The fact that Honduras is a unitary state does not help. The president appoints the governors of the country’s provinces. Consequently, rather than serving to counterbalance the center, local government is, in many ways, an extension of it and patronage is hugely important.

Notwithstanding, Honduras does have a fairly high level of fiscal stability (see “fiscal stability”).

Efficient use of assets

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In Honduras, the process of centralization around the executive has lasted many years. There are two reasons for this: First, centralization was a declared objective of the former President Hernández, who argued it would increase control over and efficiency in policy implementation. Second, the political control centralization allowed for (who gets what and how much) strengthened corrupt networks and shut out critics' viewpoints, especially when it came to environmental and economic development policies.

During her election campaign, the new president, Castro, promised to involve local communities far more in policymaking and implementation. It is too early to say whether this has improved policy coordination and policymaking. However, there has been criticism that critical voices are still ignored in favor of decisions made at the center, for instance, in energy and environmental policies. The recent creation of the Secretariat of Strategic Planning in the executive seems to continue the trend toward centralization, though Castro argues it will help with policy coherence and prevent overlap, a criticism international donors and organizations frequently make.

The strain on public services, such as the health system, during the pandemic and the extraordinary measures taken to deal with it also reinforced centralizing tendencies in the state, as major crises tend to do. It is thus unclear whether durable changes in terms of policy coordination will, or indeed can, be implemented in the near future.

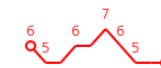
What remained of the anti-corruption initiatives in Honduras collapsed during the last few years of the Hernández presidency, such as disbanding the internationally supported MACCIH at the beginning of 2020. The new government has adopted a noticeably different tone. One of Castro's first key acts after assuming the presidency was to organize and permit the extradition of her predecessor to the United States to face charges of international drug trafficking. The president also promised to reconstitute an anti-corruption commission with international oversight and signed a memorandum of understanding with the United Nations about this matter in December 2022. She additionally promised to make the justice system more transparent and efficient to allow it to pursue servants of the state who engage in corrupt practices. As a first step, she repealed the 2014 Secrets Law, which had made it virtually impossible to declassify documents about national security and defense. In addition, the government is in negotiations with Congress over a plea bargain law to make it easier for whistleblowers to come forward.

Other issues, however, remain: public procurement is mired in corruption, the control system is weak, particularly at the local level, access to the justice system is not guaranteed and the independence of courts is uncertain. Regarding this matter, 2023 could prove a pivotal year, as the government has promised to present justice system reforms, including ones to increase the transparency of judicial nominations.

Policy coordination

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Anti-corruption policy

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Civil society groups have criticized the government, stating that Castro's proposals to deal with corruption in the criminal justice system do not go far enough. Groups like the Association for a More Just Society have also said that the government has not been as transparent about its own actions as promised.

While the new administration may intend to address corruption – which in itself would represent progress – there are serious concerns about the capacity of the Honduran state and the political capacity of the government to transform these intentions into practical, sustainable actions.

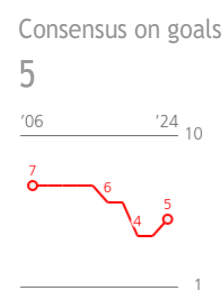
16 | Consensus-Building

The year 2021 presented something of a watershed in Honduran politics in that the opposition was able to unite around a single candidate to remove from power the Honduran National Party, which had governed Honduras since the military coup in 2009. This unity, and progress in general, remain fragile, however.

In 2021, there was consensus around what the opposition was against, not necessarily what it supported. Since then, it has proven difficult to maintain consensus around a positive policy agenda, particularly due to the number of parties represented in Congress and the fragile control the administration has over it, compromising its ability to pass far-reaching legislation. As a result, America's Quarterly argues that the government's first year in office has been marked by steady rather than spectacular progress.

Nevertheless, the peaceful transfer of power after the 2021 elections and the relative political stability since the new government assumed office in early 2022 are signs that the consensus around the stabilization of democracy is holding, at least for the time being.

There are no serious challenges to the consensus around a market economy, even with a more leftist government now in power. On the one hand, Castro's governing coalition includes parties that would not support any move away from a market economy model. On the other hand, existing economic interests, actors and power structures are so deeply entrenched that any attempt to uproot them and radically change course on economic policy would lead almost inevitably to political instability and perhaps military intervention. This is what occurred in 2009 after what amounted to little more than a mild leftward turn in economic policy by the husband of the current president.



Outwardly anti-democratic actors have lost influence in the Honduran political sphere. Arguably, the Hernández government itself was a key, perhaps the key, anti-democratic actor, having systematically eroded the system of democratic checks and balances during its eight years in power.

It was thus encouraging that the opposition came together during the 2021 elections under a banner of change, with the aim of saving democracy. It was also encouraging that the elections delivered a clear mandate for change, which was both ratified and accepted by society as a whole, so that a peaceful transfer of power could take place.

Yet, significant challenges remain. The state does not have control over all its territory. Several regions of the country are controlled, or at least infiltrated by, criminal gangs and other criminal organizations like drug cartels. In such areas, the democratic rights of citizens are not guaranteed. Equally, the state does not treat all its citizens equally. Minorities and the poor face serious, systemic discrimination, for instance, from the police.

While there is no explicit challenge to democracy at this moment, the system itself remains fragile.

Social class is the main cleavage in Honduran society. Poverty and extreme poverty remain widespread. These cleavages are the key drivers of social tensions and conflict.

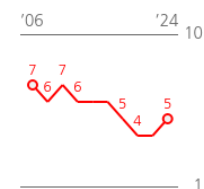
There are two basic types of conflict: One is between criminal gangs and organizations over territory in poor communities and businesses that they extort and/or lucrative drug trafficking routes north into Mexico and the United States. While the new government has committed to tackling these issues, it confronts two key problems: Structurally, not only does the state lack the capacity to address these issues country-wide, but endemic corruption at all levels, involving gangs, other criminal organizations, the police and other state actors, maintains the conflict at relatively low levels of intensity and the cleavages that sustain it in place.

Public support for apparently simple solutions like iron-fist security policies or, recently, declaring a state of exception and the associated suspension of civil rights to deal with crime makes these the go-to policies for governments of all political stripes, even though empirical evidence does not suggest they actually work.

A second type of conflict, largely in rural areas, is between landowners and peasant movements fighting for land and basic working rights. There was an expectation that the new government might negotiate a truce, but this has not occurred. In fact, the killing of environmental activists has continued unabated, and peasant movements have been highly critical of government economic development policies, which, they say, ignore Indigenous populations and peasants.

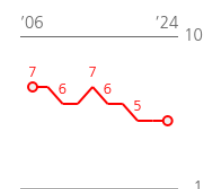
Anti-democratic actors

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Cleavage / conflict management

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Under the previous government, formal public consultation did not exist. Policies were developed and decided by a small group of people around the president in the economic sphere, often with the input of economic actors or business associations. Civil society was extremely active, but mainly protesting rather than acting as a partner in policy development. The country was one of the most dangerous in the world for environmental campaigners and investigative journalists, according to organizations such as Human Rights Watch and the Committee for the Protection of Journalists.

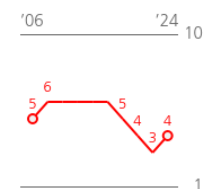
The 2022 change of government altered the dynamics of interactions between the state and civil society. Castro came to power promising to develop a constructive relationship and engagement with civil society groups, particularly, though not exclusively, in questions of environmental protection and economic development. Yet, on many issues, relations have continued to be strained. Women's rights groups, for instance, have criticized slow progress in relation to emergency contraception, while environmental groups have been highly critical of some mining projects that have continued, to the detriment of protecting the environment. While there is clearly evidence that the new government takes a different stand with regard to engaging with civil society groups, it is unlikely that relations will be entirely cordial.

The very fact that it was possible to form a broad electoral coalition to elect Castro as president and to do so with a clear and absolute majority suggests that there is a wish for beginning a process of reconciliation after years of bitter political, economic and social division. Moreover, while far from perfect, the elections of 2021 were also more peaceful than those of 2017 and 2013, according to the United States and EU observer missions.

In February 2022, the president issued the Amnesty for Political Prisoners Act, an executive order that grants general, broad and unconditional amnesty to people arrested and charged for protesting against the 2009 military coup. The state also recognized its responsibility for the murder of trans woman Vicky Hernández in June 2009. Still, whether these changes are durable is open to question. On the one hand, expectations that the government will improve the lives of the population as a whole are huge. It is unclear whether these expectations can be met and what happens if they cannot. On the other hand, there is no guarantee that the consensus for the need for change that allowed the broad electoral coalition to emerge in 2021 will sustain itself in the next electoral cycle. The relative calm the country currently enjoys is thus fragile.

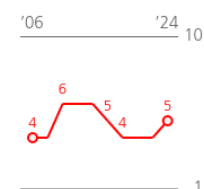
Public consultation

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Reconciliation

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17 | International Cooperation

Honduras continues to be one of the largest recipients of international aid in Latin America. According to data from the World Bank, in 2020, the country received \$1.43 billion in official development assistance. The new government is in negotiations for a further loan from the IMF, following those granted in 2019 and 2020. Such support was made all the more urgent by the impact of the COVID-19 pandemic and the natural disasters Honduras has endured in recent years.

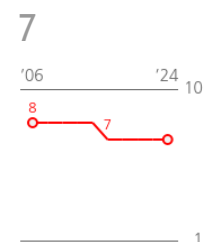
The country has bounced back strongly from the pandemic since 2021. This suggests that the aid was put to good use to stimulate economic activity, though it is difficult to establish a direct line of causality between support received and economic growth. Plus, there are still worries as to whether such aid can be used effectively in a strategic sense to make the country more resilient and crisis-proof, especially because, according to the United Nations, it is among the countries most exposed to the impacts of climate change. Several donors, such as the European Union, outline considerable conditionality in their agreements with Honduras as an attempt to guarantee sustainability. In their most recent reports, the IMF and World Bank state that there is some progress on issues such as public sector reform. However, some analysts argue that successive governments have used aid to deal with emergencies but not for strategic or sustainable goals. Certainly, the new government has not published any detailed plans aside from those aiming to establish an inclusive economy to benefit more of its population.

Honduras is active in the international community and its associated organizations and is party to major international agreements on climate change, human rights, labor standards, etc. Historically, the country has faced serious difficulties ensuring compliance with such agreements in practice, whether as a result of capacity issues or a lack of political will.

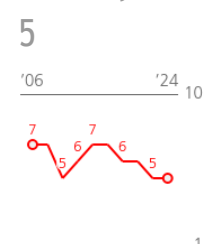
The international community's engagement with the Honduran government declined during the last years of the Hernández administration, as his focus shifted toward his domestic political survival. The new government has tried to show that Honduras is back on the international stage. In her speech to the U.N. General Assembly, President Castro stressed her commitment to environmental protection and fighting climate change, as well as her desire to address corruption. These commitments are both an attempt to attract badly needed international assistance and to show that Honduras is a serious international partner on the international stage that can be trusted. Negotiations with the United Nations about establishing an international anti-corruption commission can be seen in this light.

Yet, serious challenges persist, particularly in relation to the United States – Honduras' most important ally, with a giant military base in the country. Tensions with the United States remain over the question of migration, and the United States

Effective use of support



Credibility



has also criticized Castro's economic policy, which, according to the United States, directly negatively impacts U.S. economic interests.

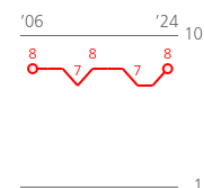
There have been no concrete, durable policy achievements to back up the promises made by the new administration.

Honduras continues to have a close level of cooperation with its immediate neighbors, particularly El Salvador and Guatemala, due to the very similar problems faced by all three states. In many ways, the three have little choice but to cooperate, seeing that they are often part of the same agreements with their main strategic partner, the United States, which treats them generally as one country. One example is the Alliance for Prosperity in the Northern Triangle. Recently, the U.S. Strategy for Central America has aimed to foster cooperation among the northern triangle countries, leveraging foreign assistance as a political tool to promote and advance U.S. national security interests.

Honduras is also a member of all regional organizations, being particularly active in the Central American Integration System (SICA) and the OAS. The new government has signaled that it will use these forums to promote its objectives in new priority areas, particularly in relation to climate change and the environment.

Regional
cooperation

8



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Strategic Outlook

The strategic outlook for Honduras remains challenging, although there have been some improvements compared to two years ago. The economy has recovered well from the impact of the COVID-19 pandemic, and there are indications that the government is making efforts to address significant strategic issues, particularly those related to the environment and transparency.

To make progress on these issues, the current government should urgently establish structures and processes that facilitate intensive policy consultation and decentralized policymaking. This approach would involve active participation in the policymaking process by local residents' associations and other national and international NGOs, which can help with coordination. The government has an opportunity to advance these issues, given the significant goodwill toward the new president on the international stage. The international community generally sees President Castro as a positive change from the increasingly discredited Hernández administration, especially following the former president's indictment in the United States. It is now incumbent upon the government to demonstrate a sincere commitment to engaging on issues of common interest, whether related to anti-corruption efforts or environmental concerns. Recent natural disasters in Honduras make evident the pressing nature of these issues.

To achieve lasting change, efforts to ensure government accountability must be intensified. Some notable progress has already been made in this regard. Crucially, the new government is in negotiations to establish a new anti-corruption commission under international supervision. Additionally, the repeal of the Secrets Law and the commitment to new procedures for appointing Supreme Court justices indicate the government's determination to combat corruption. Maintaining this trajectory and staying committed to anti-corruption efforts will facilitate the implementation of further reforms in other areas. The state will thus become better equipped to respond to the needs of the general population.

The extradition of former President Hernández early in President Castro's term served as a significant milestone, signaling the government's intention to confront the culture of impunity that has prevailed in Honduras for decades. However, the fact that prominent political and economic figures are extradited to the United States also underscores the inadequacy of the Honduran justice system when it comes to addressing major domestic crimes.

It is crucial for the international community to play a role and support the new government's reform efforts. For example, the United Nations should establish, support and sustain a reconstituted anti-corruption commission, as planned by the current administration. Additionally, the international community should assist in material reconstruction efforts following natural disasters and help rebuild and reinforce local political structures that facilitate community participation. Local actors proved to be essential to providing emergency aid and services during recent natural disasters and the COVID-19 pandemic. Such structures are vital for rebuilding trust between the state and population, a trust largely absent since the 2009 military coup.